The policy-making structure of European regulatory networks and the domestic adoption of standards

Maggetti, Martino ; Gilardi, Fabrizio

Abstract: European regulatory networks (ERNs) constitute the main governance instrument for the informal co-ordination of public regulation at the European Union (EU) level. They are in charge of co-ordinating national regulators and ensuring the implementation of harmonized regulatory policies across the EU, while also offering sector-specific expertise to the Commission. To this aim, ERNs develop 'best practices' and benchmarking procedures in the form of standards, norms and guidelines to be adopted in member states. In this paper, we focus on the Committee of European Securities Regulators and examine the consequences of the policy-making structure of ERNs on the domestic adoption of standards. We find that the regulators of countries with larger financial industries tend to occupy more central positions in the network, especially among newer member states. In turn, network centrality is associated with a more prompt domestic adoption of standards.

DOI: https://doi.org/10.1080/13501763.2011.593311

The policy-making structure of European Regulatory Networks and the domestic adoption of standards*

Martino Maggetti† Fabrizio Gilardi‡

forthcoming 2011, *Journal of European Public Policy*

Abstract

European Regulatory Networks (ERNs) constitute the main governance instrument for the informal coordination of public regulation at the EU level. They are in charge of coordinating national regulators and ensuring the implementation of harmonized regulatory policies across the EU, while also offering sector-specific expertise to the Commission. To this aim, ERNs develop "best practices" and benchmarking procedures in the form of standards, norms, and guidelines to be adopted in member states. In this article, we focus on the Committee of European Securities Regulators and examine the consequences of the policy-making structure of ERNs on the domestic adoption of standards. We find that the regulators of countries with larger financial industries tend to occupy more central positions in the network, especially among newer member states. In turn, network centrality is associated with a more prompt domestic adoption of standards.

1 Introduction

European regulatory networks (ERNs) are transnational groups that allow national regulatory authorities to formalize, structure, and coordinate their interactions pertaining to the governance of a number of important domains, such as banking, securities, insurance, electricity, gas, telecommunications, broadcasting, and competition (Coen and Thatcher, 2008; Eberlein and Newman, 2008). They constitute a new crucial step toward the institutionalization of regulatory governance in Europe, which calls for an empirical investigation of its consequences.

*We thank Berthold Rittberger, Mark Thatcher, Arndt Wonka, and two anonymous referees for helpful feedback. This research is part of the NCCR Democracy (`http://www.nccr-democracy.uzh.ch/`) and is funded by the Swiss National Science Foundation. A replication dataset and codebook are available on the authors' websites.

†University of Lausanne and University of Zurich, Switzerland. Email: `maggetti@ipz.uzh.ch`. URL: `www.maggetti.org`.

‡University of Zurich, Switzerland. Email: `gilardi@ipz.uzh.ch`. URL: `www.fabriziogilardi.org`.

While several studies examined their origins and evolution (e.g., Thatcher and Coen, 2008), the effects of ERNs on regulatory policy-making remain unclear. On the one hand, some scholars have argued that networks might enhance decision-making quality through peer pressure and reputational dynamics, improving professional standards and policy commitments (Majone, 2000; Eberlein and Grande, 2005). On the other hand, it has been argued that networked administrative action can lead to cooptation, clientelism, and other practices hindering performance (O'Toole and Meier, 2004); that dense policy networks tend to produce closure, inertia, and negative externalities (Soda and Usai, 1999); and that power dynamics are not absent from transnational networks (Bach and Newman, 2010). More generally, sociological theories of diffusion point out that practices can spread within networks regardless of their effectiveness (Strang and Soule, 1998). Whether these diverse views correspond to actual policy-making dynamics within European regulatory networks is an open question because, as regulatory networks gain prominence at the EU level and beyond, evidence of their performance remains scarce (Kenis and Provan, 2009).

In this article, we investigate a specific aspect of ERNs, namely, their policy-making structure and its connection with national standardization patterns. To be precise, our research question relates to the impact of network centrality on the domestic adoption of standards developed at network level. We focus on the Committee of European Securities Regulators (CESR), which is one of the most developed networks in terms of competencies, powers, and formalization of its structure. Using publicly available but previously unexploited data, we examine the network relationships among its member regulatory authorities and their connection with the extent to which the decisions taken by the CESR are adopted at the national level. We identify five patterns of adoption (full, selective, partial, selective and partial, and non-adoption) and find that the regulators of countries with larger financial industries tend to occupy more central positions within the network, especially among newer EU member states. In turn, network centrality is associated with a faster adoption of standards. However, most countries eventually catch up. These findings suggest that closer interaction among regulators is shaped by national interests and that it influences the pace of domestic adoption more than its eventual level. Because of our case selection, these results are likely to constitute a ceiling for adoption patterns within ERNs.

The article is structured as follows. Section 2 introduces ERNs and their relevance for EU governance. Section 3 discusses the structure of ERNs and the development of transnational standards, focusing especially on the case of the CESR. Section 4 examines patterns in the domestic adoption of standards, first by identifying several types of adoption and then by analyzing their determinants. The conclusion discusses the implications of the findings for policy-making within regulatory networks.

2 European Regulatory Networks and EU governance

ERNs operate in the shadow of European institutions, but have substantial room for maneuver in the conduct of their various tasks, including providing advice to the EU Commission on technical matters, coordinating the policy positions of domestic authorities, offering fora for discussing current issues with the representatives of regulated industries, and, most importantly, developing standards and guidelines of "best practices" to be approved at the network level and adopted by member national authorities on a voluntary basis. Some ERNs were created upon the initiative of a group of national regulators with the aim of strengthening their connections, whereas others were established under the impulsion of the EU Commission as the outcome of a process of negotiation among member states in which the option of sectoral pan-European agencies was discarded in favour of an intergovernmental solution (Thatcher and Coen, 2008). However, in both cases, they brought into being a new, distinctive, flexible, and effective level of governance (Eberlein and Newman, 2008, 45).

ERNs are regarded as a fundamental layer of the multi-level political system of the European Union. They should permit to manage the new European economic regimes by enacting a distinctive framework wherein political power and public authority are increasingly dispersed within a system of task-driven governance. Because they are permeated by academic experts and non-state actors, they convey new actors and new structures into the policy process beyond the nation-state. In addition, ERNs are deemed to constitute organizational devices for the promotion of norms through a mechanism of socialization and peer pressures, and they should contribute to the implementation of international standards, which are initiated and developed by a variety of unelected actors.

ERNs possess a number of peculiar features that distinguish them both from other instru-

ments of "new" governance, such as politics forum and platforms for policy transfer, and from other types of policy networks that are relevant for policy-making, which are generally defined as quite informal and non-hierarchical "webs of relatively stable and ongoing relationships which mobilize and pool dispersed resources so that collective (or parallel) action can be orchestrated towards the solution of a common policy" (Kenis and Schneider, 1991, 36). In general terms, policy networks are expected to exert the most effective peer pressures only under a specific set of circumstances, such as the existence of durable relations among members, the development of cooperative interactions, the existence of a state of mutual interdependence, and network representativeness, all of which are the basic elements of a problem-solving and deliberative decision-making process (Papadopoulos, 2007) and which seem exceptionally prominent in the case of ERNs.

From the point of view of the structure of interaction, one can observe that network ties are, by design, particularly strong in ERNs. Unlike the case of ordinary policy networks, which can be conceptualized as relatively blurry, permeable, and nebulous advocacy coalitions or epistemic communities, European regulatory networks have an official, well-defined structure, also possessing resources and competences directly and indirectly derived from the European level. This state of affairs produces stable, durable, resourceful arenas, which might promote constructive horizontal interactions among the participating actors. In this framework, actors interact frequently, and the boundaries of the network are clearly specified, favouring a situation wherein information spreads rapidly, and there are more opportunities for "diffuse reciprocity" (Elgström and Jönsson, 2000). In addition, long-term and repeated interactions within small groups encourage, through a socialization process, the development of an "esprit de corps" that is likely to generate co-operative behaviour and problem-solving attitudes (Boyt, Lusch and Mejza, 2005). Therefore, these networks were established with the expectation that they might create the appropriate peer pressure and reputational incentives for regulators to act professionally and thus co-produce higher-quality regulatory outcomes (Majone, 2000).

Concerning the actor-level strategies of regulators embedded in ERNs, two points deserve attention. On the one hand, the units that constitute the nodes of the network—that is, domestic agencies—are distinct organizations with uneven resources, but they constitute a relatively uniform type of actor. ERNs federate authorities that display approximately the same organi-

zational model and have comparable competencies. Above all, they also share common goals as regards regulatory policies. In this sense, the policy interests of domestic regulators do not conflict a priori, and they are confronted with similar challenges vis-à-vis elected politicians and regulated industries. Collaboration within networks should then be perceived as a win-win option, favouring a deliberative, cooperative, problem-solving game, which might produce, in the ideal case, Pareto-optimal solutions (Papadopoulos, 2007). On the other hand, as regulatory agencies are unelected and isolated from the electoral cycle, then the interaction among their members is expected to follow a less strategic and short-term game than negotiations among other types of political actors, such as representatives of political parties and interest groups. In fact, ERNs are to be considered as knowledge-based arenas that promote the exchange of ideas and information—in contrast to power-based arenas, which rely on the asymmetry of political resources—raising again the probability of a virtuous, problem-solving form of interaction (Elgström and Jönsson, 2000).

Despite these arguments pointing to the virtues of ERNs, it would be wrong to believe that networks have univocally positive consequences on policy making. Some authors have emphasized that politics is not absent from networks, which may even reinforce existing power structures (O'Toole and Meier, 2004; Bach and Newman, 2010). Furthermore, many sociological studies have shown that practices can spread within networks in virtue of their symbolic and socially constructed properties, regardless of their actual consequences, and even despite their ineffectiveness (Strang and Soule, 1998). Thus, we remain fully open to the possibility that, in spite of the characteristics that seem to make them conducive to effective policy-making, ERNs may be unable to fulfill the high hopes that the have engendered. Furthermore, in this article we are agnostic as to the specific contours of decision-making processes within networks, also because the interactions among member regulators are usually surrounded by a high level of confidentiality. Instead, we argue that the unfolding of particular decision making-processes should have observable implications for their outcomes, that is, the patterns of standards approval and adoption. In line with the literature on interlocking directorates (Mizruchi, 1996), we expect these patterns to be shaped by the position of actors within the network, as defined by the communication and informational structure emerging from co-participation linkages in the network's official subgroups. Therefore, we offer an empirical exploration of the dynamics

of standards adoption for a selected network—the CESR—and examine the connection between the regulators' structural positions within the network and the domestic adoption of standards approved at network level. While adoption per se does not allow us to assess the consequences of policy-making within ERNs in detail, it does constitute a minimal criterion of effectiveness (Bach and Newman, 2010). If an ERN is not able to promote successfully the adoption of the standards it develops, then its effectiveness would be called into question. However, we emphasize that we see the examination of adoption patterns as a first step toward a more comprehensive study of the consequences of regulatory networks.

3 The structure of ERNs and the development of transnational standards

All ERNs function as federations of the regulatory authorities of EU member states as well as some non-member states, such as Iceland, Norway, and Switzerland. The EU Commission is usually represented at ERN meetings, too. The ERNs' organizational model normally comprises a secretariat; a management board, which is ultimately responsible for decision-making; and a number of permanent committees and ad-hoc working groups, whose members convene on a regular basis. Committees and working groups frequently involve academic experts and business representatives, and are in charge of preparatory meetings and day-to-day meta-regulatory functions, such as reports, standard setting, and peer review assessments. Despite these common organizational features, the degree of institutionalization of ERNs, like their resources and assignments, varies across sectors, following functional rationales engaging the EU level and cross-national path dependent trajectories.

The CEER/ERGEG (Council of European Energy Regulators/European Regulators' Group for Electricity and Gas) and IRG/BEREC (Independent Regulators Group/Body of European Regulators for Electronic Communications) are networks of utilities regulators, presenting a hybrid structure. They bring together bottom-up and top-down groups of national regulators of electricity and gas, and, respectively, telecommunications, which largely overlap. Bottom-up groups, such as the CEER and IRG, are voluntary associations of national regulatory authorities, with the aim of facilitating consultation, coordination, cooperation, information exchange and assistance amongst regulators. Top-down groups, such as ERGEG and BEREC (which recently

replaced the ERG), were established through EU directives and Commission decisions, in order to function as advisory bodies and to foster harmonization of national regulations, thanks to the enactment of "soft law" prerequisites (Coen and Thatcher, 2008). The ECN (European Competition Network) also consists of national competition authorities and the EU Commission, but has the distinctive feature of enjoying closer support from the Commission and of not being organised by committees drawn from member states (Wilks, 2005). This network is mostly dedicated to the effective enforcement of EC competition rules across Europe by acting as a powerful system that favors the spread of information and the coordination of national authorities. It is considered a uniquely independent transnational network promoting the first real supra-national policy in the EU—that is, competition policy—with unexpected smoothness (Wilks, 2007). Finally, the EPRA (European Platform of Regulatory Authorities) is the least institutionalized network. It operates externally, somewhat parallel to European institutions, and functions essentially as an open forum for information exchange and informal discussions among regulatory authorities in Europe and beyond.

The CESR (Committee of European Securities Regulators), CEBS (Committee of European Banking Supervisors) and CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors) constitute the so-called level-three committees of the Lamfalussy process (Chaher, 2005)—namely, the stage devoted to the implementation of the new system of regulation of the European financial markets (De Visscher, Maiscocq and Varone, 2008). These three networks were designed to cooperate closely, but, a decade after their creation, evidence indicates that the CESR holds a distinctive leading role, mostly because the European policy of security regulation is more coherent and consensual than the other issues to be coordinated at the transnational level (Lütz, 2004). To examine patterns of standards adoption and for the effect of networks' structures, we focus on the CESR, which was set up in 2001 with the aim of harmonizing securities regulation in Europe. In particular, it is in charge of improving coordination among securities regulators, acting as an advisory group to assist the EU Commission, and ensuring consistent and timely implementation of community legislation in the member states. These tasks are accomplished through the dissemination of standards, guidelines, and recommendations (Baker, Hudson and Woodward, 2005). Each EU member state is represented by the head of the national regulator authority in the field of securities. The Director General

of the DG Market participates as the representative of the European commission. Furthermore, the securities authorities of Norway and Iceland are represented. The observed time period is ten years (2001–2010)—that is, from its establishment to the present time. We focus on the CESR for two reasons. First, this network is of the "harder" type, in terms of competencies, powers, and formalisation of its structure (Coen and Thatcher, 2008), representing thus a "most-likely" case of consistent domestic adoption. Second, it is the most transparent network and discloses a considerable amount of information, especially data on standard adoption, which are crucial for our research goals.

CESR standards consist of sector-specific corporate governance measures to promote harmonized pro-competition rules in member (and non-member) states securities markets. They seek to improve transparency and investor protection while eliminating market barriers and to reduce costs for investors and fund management companies. The standards and guidelines are not mandatory because they do not have Community law status, which means that CESR members introduce them in their day-to-day regulatory practices on a voluntary basis (Chaher, 2005). However, the review panel of the CESR assesses the overall process of implementation and offers recommendations about specific problems in the implementation process encountered by individual members. It encourages self-assessment procedures to obtain a first picture of the practice of supervision in a given area. Most important, it exercises group pressure through peer reviews, which are carried out by other members on the implementation in all jurisdictions concerned, by setting so-called benchmarks that are used to evaluate the levels of compliance, not unlike in the Open Method of Coordination (Heidenreich and Bischoff, 2008).

We selected three standards and a set of guidelines developed autonomously by the CESR and for which there is consistent information on the adoption process:

The *standard for investor protection* (2002) provides a harmonized conduct of business rules for retail investors in the following areas: standards and rules of general application, information to be provided to customers, the "know your customer" standards and the duty of care, customers agreements, dealing requirements (including the "best execution" standards) and individual discretionary portfolio management.

Standard 1 on financial information (2003) represents a contribution to the task of developing and implementing a common approach to the enforcement of International Financial Re-

porting Standards (IFRS) in Europe. It provides for principles by which harmonization on the institutional oversight systems in Europe may be achieved.

Standard 2 on financial information (2004–2005) aims to contribute to the consistent enforcement of IASB (International Accounting Standards Board) standards within Europe, implemented in 2005, namely by providing a formalized structure and a number of common principles to national supervisors.

UCITS guidelines (2006) aim to simplify the notification procedure of UCITS (undertakings for collective investments in transferable securities)—that is, the use of passports for facilitating the cross-border activities of investment funds. In particular, this document offers a common approach to domestic authorities in order to bring greater simplicity, transparency, and certainty to the notification process.

4 The domestic adoption of standards

4.1 Patterns of adoption

According to CESR terminology, "implementation" means the adoption of a given standard at domestic level in the form of a compulsory regulation. These standards are coded item by item by the Review panel of the CESR as "implemented" (1), "partially implemented" (0.5), or "not implemented" (0). Using these data, we can examine the patterns of standard adoption in member states. Each item for any given standard was preliminarily aggregated by calculating its overall average value, but the analysis leads to essentially the same conclusions if it is carried out using the individual items.

We assess the adoption of the four standards taken as a whole, using the latest "implementation" data: investor protection (2010), financial 1 (2010), financial 2 (2009), and UCITS guidelines (2010). We use cluster analysis, which is a simple procedure to identify groups of individuals that are similar to each other but different from individuals in other groups (Kaufman and Rousseeuw, 2005). Hierarchical clustering is a technique that does not need prior assumptions about the distribution of data nor does it predetermine the number of clusters. Before running the analysis, "squared Euclidean distance" was chosen as the appropriate measure of distance between groups, and "between-group linkage" as the procedure for forming the groups.

Table 1: *Patterns of adoption of three standards and a set of guidelines.*

Full	Hesitant	Partial	Hesitant and partial	Non-adoption
Finland	Belgium	Estonia	Czech Republic	Austria
Portugal	Germany	Slovakia	Slovenia	Iceland
Ireland	Norway	Latvia		
Greece	Romania	Lithuania		
Great Britain	Denmark	Malta		
Cyprus	France	Bulgaria		
Italy	Spain	Sweden		
	Poland			
	Netherlands			
	Luxembourg			

Accordingly, the software (Stata 11) computes the smallest average distance between all group pairs and combines the two groups that are closest. In the first step, the two cases with the smallest distance between them are clustered. Then, the software computes distances again and combines the two that are next closest. The process continues until all cases are grouped into one large cluster. Therefore, the last analytical step is to determine how many clusters one shall use to represent the data, with the help of the agglomeration schedule and the clustering tree elaborated by the statistical package. The tree should be cut at a stage representing a big leap in the values of the index, and offering a good balance between the homogeneity of the groups and their number. Here, these conditions were met after five agglomerations.

Table 1 displays the results. The analysis produced five clusters and one isolated case (Hungary). As this process of categorization is inductive, we labelled each group ex-post, according to the distinctive pattern they represent: full, hesitant, partial, hesitant-and-partial, or non-adoption. Accordingly, besides the first group of "good pupils," we identify countries that adopted the four standards very selectively, that adopted most standards but only partially, and also a small number that presents both of these limitations. Finally, two countries did not adopted any proper standard yet, except from the less demanding UCITS guidelines.

How can we explain this pattern? The classic "veto players" argument—namely, that law-making will be particularly difficult in countries where the agreement of numerous actors is constitutionally and politically required—appears limited for characterising the profile of the best domestic adopters of CESR standards, given the good performance of some countries whose political system are punctuated by several institutional and partisan veto players, such as Italy

and Portugal. Another frequently cited condition for domestic change is a "manageable misfit" between domestic and EU-level regulations producing adaptational pressures, whereas there is no need for adaptation when EU rules fit well with domestic policies, and "Europeanization" hardly occurs when a high level of incompatibility leads to conflicts, resistance, and blocking (Börzel and Risse, 2002; Knill and Lehmkuhl, 2002). Again, the existing "misfit" seems hardly useful in this case, since the group of the smoothest adopters comprise countries whose corporate governance rules are the most in line with the CESR standards, such as the UK and Ireland, together with some of the least compatible jurisdictions (Greece, Cyprus). Finally, the politico-administrative culture of compliance with EU law can be dismissed as not suitable for portraying these patterns, because the clusters of adopters do not match at all with the typology of the three "worlds of compliance," respectively dominated by "law observance," "domestic politics," and "neglect" (Falkner et al., 2005).

These findings are not exceedingly surprising per se, because voluntary standards should not be equated to community law, for which the aforementioned literature was developed. Nonetheless, they are interesting because they reinforce the plausibility of an endogenous explanation. In other words, we might expect patterns of domestic adoption to be shaped by the characteristics of the structure of interaction within networks, and, in particular, by the varying positions of participating actors as defined by their institutional linkages, which represent their organizational communication potential (Mizruchi, 1996). However, our expectations are mixed. On the one hand, actors in central positions hold a considerable amount of structural power and are likely to influence the approval of standards at network level (Burt, 1995; Knoke, 1990). Therefore, they should be eager to adopt them. On the other hand, these actors should have the material and symbolic resources to resist the peer pressure exerted within the network, and not feel compelled to adopt any standards in their country with which they do not fully agree or which are no longer in their best interest.

4.2 Determinants of adoption

We analyze the determinants of adoption for the "Financial 1" standard, one of the oldest, and the only one for which all the relevant information is available, especially longitudinal data for domestic adoption. Furthermore, the approval of this standard at CESR level constituted

a pivotal issue for network members (interview with a CESR executive, 28.09.2010), while its domestic adoption "represents a major change" in financial regulation (Brown and Tarca, 2005), which is expected to have a sensible impact on the regulated firms (Lantto and Sahlström, 2009). Data were extracted from the annual reports of the CESR (1999–2010) and from a number of CESR official documents and working papers. Our analysis consists of three steps. First, we examine the determinants of network centrality: which regulators have a more central position within the network? Second, we consider whether countries whose regulators are more central tend to adopt the standard more promptly. Third, we inspect to what extent, and why, the standard is widely adopted by the end of the observation period.

Our main hypothesis concerns the position of agencies within networks, a variable which is expected to be related to their willingness to adopt at the domestic level the standards developed and approved at the transnational level. In relational terms, their position corresponds to the centrality determined by the structure of interaction within the network (Carrington, Scott and Wasserman, 2005). If ERNs are conceptualized as social networks, this structure of interaction consists of the social ties that derive from different types of linkages among agencies. In that regard, this article focuses on the formal structure of ERNs. From an organizational perspective, formal rules and institutional design are expected to have crucial effects on actors' behaviour, as the structure of the organization constrains choices, but at the same time, it creates and enhances capacity in certain directions (Egeberg, 1999). Thus, this social network, based on linkages of co-participation in networks subgroups, represents the framework of the institutionalized structure of communication and potential influence among agencies within the ERN (Mizruchi, 1996). It can be mapped and explored with the application of some simple measures of social network analysis (Scott, 2000).

Concretely, national regulatory authorities constitute the nodes of the social network, while ties represent instances of co-participation between given pairs of member regulators. We distinguish four types of linkages, following co-participation in (1) the network, (2) the board, (3) permanent groups, (4) working groups. We first computed a two-mode matrix (actors/years) for each subgroup, to be transformed in one-modes with the standard procedure (called "affiliations") in the social network analysis software UCINET (Borgatti, Everett and Freeman, 1999). The resulting matrices are then aggregated by computing the sum of values cell-by-cell. For

instance, if two agencies co-participate for 3 years in one subgroup and for 1 year in another, their relation for the time-period will receive a (symmetric) value of 4. Finally (by excluding the diagonal in the subsequent analysis), we calculate the degree centrality and the Eigenvector centrality of actors for three distinct cumulative measures: 2001 to 2006, 2001 to 2008, and the whole observation period (2001–2010).[1] The first measure of centrality refers to the number of ties for any given nodes—that is, local connectivity—while the second assesses the relative importance of a node in the network. In the rest of this article, we refer to actors' network centrality as their degree, because this measure is more straightforward. However, as a robustness check, we repeated all calculations using Eigenvector centrality and found that there is little change in the results.

In addition to network centrality, other explanatory variables could be related to the adoption of standards at the domestic level. First, we expect systematic differences between older and newer member states, as well as the two non-EU-members in the CESR (Norway and Iceland). We operationalize this factor simply by taking the log of the number of years since EU-accession.[2] Second, the regulators' resources might play an important role, as it may be easier for larger agencies to send staff to permanent and working groups, and generally to be more strongly involved in the network's activities. We operationalize this factor with the log of the number of employees.[3] Third, it could be expected that countries with larger financial industries have stronger interests at stake and may be more involved at the network level. We operationalize this factor with the market capitalization of the financial industry as a percentage of the GDP, which reflects the relative importance of the financial sector for the political economy of the various countries and, therefore, the level of priority that a reform of the regulations of the financial sector should have on the political agenda of the regulatory authorities. The World Bank (2010) database can be used to construct an average value for 2001–2008. Another important variable is the number of actors involved in enforcement at the domestic level, a measure which is more pertinent than the typical veto player scheme when studying the domestic adoption of transnational voluntary standards (Mattli and Büthe, 2003). The higher the number and the more diverse the actors, such as regulatory authorities in charge,

[1] 2006, 2008, and 2010 are the three years for which data on domestic adoption is available.

[2] Using the simple (unlogged) number of years does not change the results. The main analysis uses the year of EEA-accession (1994) for Norway and Iceland. Setting this variable to 0 for these two countries, or dropping them altogether, does not alter the results substantively.

[3] Using the unlogged values does not affect the results.

	(1)	(2)	(3)	(4)	(5)	(6)
Number of employees (log)	8.11					
	(6.42)					
Financial industry capitaliz.		0.17	1.13***			
		(0.11)	(0.30)			
Years of EU membership (log)		27.54***	41.04***			
		(4.11)	(6.18)			
Capitalization × EU			−0.31***			
			(0.09)			
Number of actors				0.23**	0.14	
				(0.11)	(0.11)	
Network centrality (2001–2006)					0.41**	
					(0.18)	
Adoption (2006)						−0.65***
						(0.12)
Constant	89.51**	50.39***	13.90	0.20	−0.23	0.70***
	(36.56)	(9.36)	(13.31)	(0.15)	(0.23)	(0.07)
Adjusted R^2	0.02	0.78	0.84	0.12	0.24	0.50
N	29	29	29	29	29	29

Table 2: *OLS estimates. The dependent variables are network centrality (2001–2006) (Models 1–3),s adoption until 2006 (Models 4 and 5), and the difference in adoption between 2010 and 2006 (Model 6).*

other agencies, central banks, the parliament, the governments and other actors like courts, the more difficult the implementation of standards is expected to be. Information on this variable is derived from official documentation of the CESR review panel (CESR, 2009), completed with the results of our own survey.

The results of the OLS regressions are displayed in Table 2. In Models 1–3, the dependent variable is network centrality in the 2001–2006 period. Model 1 shows that regulators with more employees tend to occupy a more central position within the CESR, but the relationship is by far not statistically significant, even when no other variables are included. Model 2 indicates that the more central regulators are those of older EU member states and of countries that have large financial industries. Although the coefficient of financial size does not achieve statistical significance in Model 2, Model 3 shows that the relationship between financial industry capitalization and network centrality varies with years of EU membership, and is stronger among newer member states.[4] These results are shown graphically in Figure 1, which plots the marginal effect of financial services capitalization as a function of years of EU membership, based on Model

[4]As noted earlier, these results are robust to various alternative operationalizations of EU membership.

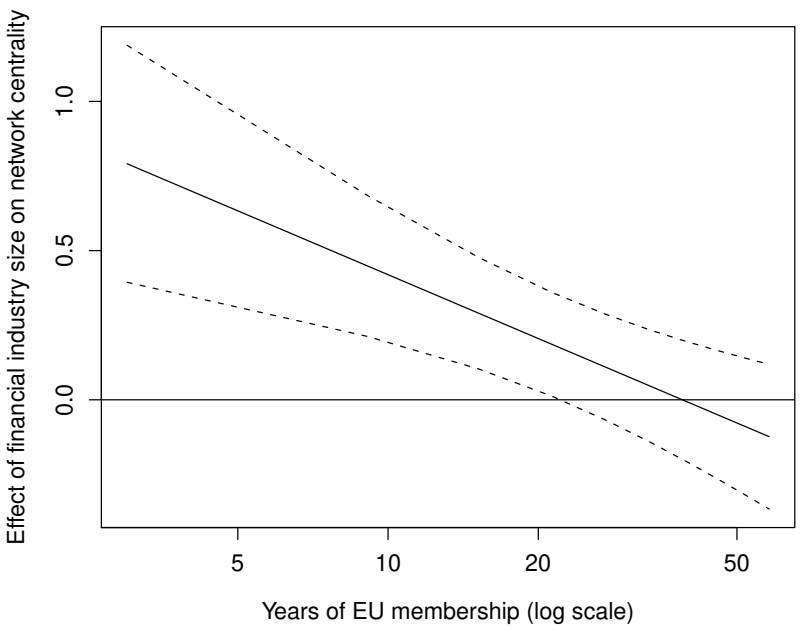

Figure 1: *Effect of financial industry capitalization on centrality in the CESR network, conditional on years of EU membership, with a 95% confidence interval. The figure is based on Model 3 in Table 2.*

3. We see that a sizeable financial industry is associated with a more central position only for younger member states—namely, those who joined the EU in the last 20 years. To give an idea of the size of the effect, a standard deviation increase in financial industry capitalization is associated with a 0.85 standard deviation increase in network centrality for countries that joined the EU in 2007. More concretely, this means that if the size of the Bulgarian financial sector were to increase to the level of Greece, the position of the Bulgarian regulator in the CESR network would be expected to be similar to that of Poland, which joined the EU three years before Bulgaria. More generally, Model 3 suggests that, for countries that joined the EU in the Eastern enlargement phase, the effect of a standard deviation increase in financial services capitalization is roughly equivalent to that of joining the EU three years earlier. Thus, the effect of the financial industry's size is not sweeping, but certainly not trivial.

Models 4–5 in Table 2 examine the determinants of adoption in 2006. In Model 4, we see that there is a positive relationship between the number of actors involved in enforcement and the degree of adoption, which is unexpected. However, Model 5 shows that this relationship becomes smaller and statistically insignificant when network centrality is included. The interesting result,

however, is that domestic adoption up to 2006 tends to be higher in countries that had a more central position in the CESR. The plausibility of the connection between network centrality and domestic adoption is reinforced by additional pieces of information. On the one hand, according to a CESR executive,[5] the financial 1 standard was fully developed within a working group of the CESR itself, composed by representatives of each member authority, which are also in charge of domestic adoption, without the participation of external actors. On the other hand, a survey carried out by the CESR shows that 75 percent of national regulators consider network influence on national regulation as "quite high" or "very high," and none as "quite low" or "very low" (CESR, 2007). Finally, Model 6 shows that while central countries tend to be early adopters, most other countries caught up between 2006 and 2010. The dependent variable is the difference in adoption in this period, and the explanatory variable is the level of adoption in 2006. The strongly negative and statistically significant coefficient indicates the presence of β-convergence (Heichel, Pape and Sommerer, 2005), whereby countries with lower levels of adoption in 2006 increased it more subsequently.

In sum, the Financial 1 standard developed by the CESR was adopted in most countries by 2010, but regulators that were more central within the network adopted it more quickly. In turn, network centrality is associated with the size of the financial industry, especially among newer EU member states.

5 Conclusion

In this article, we examined the domestic adoption of standards developed by the Committee of European Securities Regulators, the European network of national agencies regulating the financial markets. Our analysis highlighted a number of points related to the policy making structure of the CESR and its consequences for domestic adoption, which permit us to corroborate and refine claims that transnational regulatory networks influence policy convergence and that lead regulators shape domestic regulatory agendas (Bach and Newman, 2010).

First, it is interesting to note that these standards, although on a voluntary basis, are adopted quite consistently as compulsory regulations by member states. Therefore, decision-making within ERNs matters. More precisely, using a cluster analysis of the four existing

[5]Telephonic interview, October 2010.

standards, we identified five patterns of adoption ("full," "selective," "partial," "selective and partial," and "non-adoption") that do not match with those expected following the "(mis)fit," "veto players," and "cultural" arguments developed in the literature on Europeanization. This result is intriguing because it shows that the effect of European networks on domestic regulations is mediated by different factors than those evoked for traditional European-level processes, policies and institutions. In particular, it reinforces the plausibility of network structures as distinctive filters for national interests.

Second, the diachronic analysis of adoption of standard 1 on financial information shows that the regulators of countries with larger financial industries tend to occupy more central positions in the network, and that the relationship is stronger among newer Member States. This finding suggests that agencies representing countries with higher stakes in financial market regulation have both the incentives and the legitimacy to join the network and to engage themselves more actively in the network board, permanent groups, and working groups. The fact that this dynamic is particularly strong for newcomers might suggest that, given their weaker integration within EU structures, they are even more relying on this peculiar type of horizontal arena to support their points of view and protect their national interests.

What is more, network centrality is associated with a more prompt domestic adoption of standards. The fact that this form of structural power is apparently influencing the timing of adoption, but not necessarily its extent, leads us to think that this effect is less due to the influence of central actors on standard approval at network level than to their increased resources in terms of communication and information flows, which enhances their willingness and capacity to adopt the standards. In this regard, it is worth noting that not only does the financial 1 standard represent a major change in financial regulation, but that it is also the most consistently adopted standard of the most institutionalized network. Therefore, these results are likely to constitute a ceiling for adoption patterns within ERNs and, thus, to be relevant especially for cases of successful transnational standard-setting.

In conclusion, the CESR seems to be effective in performing its main task, namely the promotion of harmonized rules. The Lamfalussy system of EU financial regulation was purposely limited to the regulation of markets and business conduct, while the prevention and reduction of systemic risks ("prudential regulation") is beyond its competencies (Posner, 2010). In this

context, the current reform of the regulatory regime implying the creation of an European agency for financial markets could be interpreted less as a recognition of regulatory failures than as an expansion of EU authority through the application of a pre-formatted, socially valued organizational model—an integrated independent regulator (Gilardi, 2005)—thanks to a windows of opportunity triggered by the 2008 financial crisis.

References

Bach, David and Abraham L. Newman. 2010. "Transgovernmental Networks and Domestic Policy Convergence: Evidence from Insider Trading Regulation." *International Organization* 64(3): 505–528.

Baker, Andrew, David Hudson and Richard Woodward, eds. 2005. *Governing Financial Globalization. International Political Economy and Multi-Level Governance*. London: Routledge.

Borgatti, Steve, M. G. Everett and L. C. Freeman. 1999. *UCINET 6.0 Version 1.00*. Natick: Analytic Technologies.

Börzel, Tanja A. and Thomas Risse. 2002. "Conceptualizing the Domestic Impact of Europe." In *The Politics of Europeanisation*, ed. Keith Featherstone and Claudio Radaelli. Oxford: Oxford University Press, pp. 57–81.

Boyt, Thomas, Robert Lusch and Michael Mejza. 2005. "Theoretical models of the antecedents and consequences of organizational, workgroup, and professional esprit de corps." *European Management Journal* 23(6): 682–701.

Brown, Philip and Ann Tarca. 2005. "A commentary on issues relating to the enforcement of International Financial Reporting Standards in the EU." *European Accounting Review* 14(1): 181–212.

Burt, Ronald S. 1995. *Structural Holes: The Social Structure of Competition*. Cambridge (MA): Harvard University Press.

Carrington, Peter J., John Scott and Stanley Wasserman. 2005. *Models and Methods in Social Network Analysis*. Cambridge: Cambridge University Press.

CESR. 2007. "Questionnaire on Assessment of CESR's activities between 2001 and 2007." `http://goo.gl/GnXQ`.

CESR. 2009. "Final report of the Review Panel concerning the updated self-assessment and peer review of CESR's Standard No. 1 on financial information." `http://goo.gl/wG2n`.

Chaher, Santiago J. 2005. "Is Lamfalussy Failing from the Third Floor (Level)?" LSE Working Paper Series.

Coen, David and Mark Thatcher. 2008. "Network Governance and Multi-Level Delegation: European Networks of Regulatory Agencies." *Journal of Public Policy* 28(1): 49–71.

De Visscher, Christian, Olivier Maiscocq and Frédéric Varone. 2008. "The Lamfalussy Reform in the EU Securities Markets: Fiduciary Relationships, Policy Effectiveness and Balance of Power." *Journal of Public Policy* 28(1): 19–47.

Eberlein, Burkard and Abraham L. Newman. 2008. "Escaping the International Governance Dilemma? Incorporated Transgovernmental Networks in the European Union." *Governance* 21(1): 25–52.

Eberlein, Burkard and Edgar Grande. 2005. "Beyond Delegation: Transnational Regulatory Regimes and the EU Regulatory State." *Journal of European Public Policy* 12(1): 89–112.

Egeberg, Morten. 1999. "The Impact of Bureaucratic Structure on Policy Making." *Public Administration* 77(1): 155–170.

Elgström, Ole and Christer Jönsson. 2000. "Negotiation in the European Union: bargaining or problem-solving?" *Journal of European Public Policy* 7(5): 684–704.

Falkner, Gerda, Oliver Treib, Miriam Hartlapp and Simone Leiber. 2005. *Complying with Europe: EU Harmonisation anf Soft Law in the Member States*. Cambridge: Cambridge University Press.

Gilardi, Fabrizio. 2005. "The Institutional Foundations of Regulatory Capitalism: The Diffusion of Independent Regulatory Agencies in Western Europe." *Annals of the American Academy of Political and Social Sciences* 598: 84–101.

Heichel, Stephan, Jessica Pape and Thomas Sommerer. 2005. "Is There Convergence in Convergence Research? An Overview of Empirical Studies on Policy Diffusion." *Journal of European Public Policy* 12(5): 817–840.

Heidenreich, Martin and Gabriele Bischoff. 2008. "The Open Method of Co-ordination: A Way to the Europeanization of Social and Employment Policies?" *Journal of Common Market Studies* 46(3): 497–532.

Kaufman, Leonard and Peter J. Rousseeuw. 2005. *Finding Groups in Data: An Introduction to Cluster Analysis*. Hoboken, NJ: Wiley.

Kenis, Patrick and Keith. G. Provan. 2009. "Towards an exogenous theory of public network performance." *Public Administration* 87(3): 440–456.

Kenis, Patrick and Volker Schneider. 1991. "Policy Networks and Policy Analysis: Scrutinizing a New Analytical Toolbox." In *Policy Networks: Empirical Evidence and Theoretical Considerations*, ed. Bernd Marin and Renate Mayntz. Boulder (CO): Westview Press, pp. 25–59.

Knill, Christoph and Dirk Lehmkuhl. 2002. "The National Impact of European Union Regulatory Policy: Three Europeanisation Mechanisms." *European Journal of Political Research* 41: 255–280.

Knoke, David. 1990. *Political Networks: The Structural Perspective*. Cambridge: Cambridge University Press.

Lantto, Anna-Maija and Petri Sahlström. 2009. "Impact of International Financial Reporting Standard adoption on key financial ratios." *Accounting & Finance* 49: 341–361.

Lütz, Susanne. 2004. "Convergence Within National Diversity: The Regulatory State in Finance." *Journal of Public Policy* 24(2): 169–197.

Majone, Giandomenico. 2000. "The Credibility Crisis of Community Regulation." *Journal of Common Market Studies* 38(1): 273–302.

Mattli, Walter and Tim Büthe. 2003. "Setting International Standards: Technological Rationality or Primacy of Power?" *World Politics* 56: 1–42.

Mizruchi, Mark S. 1996. "What do Interlocks do? An Analysis, Critique, and Assessment of Research on Interlocking Directorates." *Annual Review of Sociology* 22: 271–298.

O'Toole, Laurence J. and Kenneth J. Meier. 2004. "Desperately seeking Selznick: Cooptation and the dark side of public management in networks." *Public Administration Review* 64(6): 681–693.

Papadopoulos, Yannis. 2007. "Problems of Democratic Accountability in Network and Multilevel Governance." *European Law Journal* 13(4): 469–486.

Posner, Elliot. 2010. "The Lamfalussy Process: Polyarchic Origins of Networked Financial Rulemaking in the EU." In *EU Governance: Towards a New Architecture?*, ed. Charles F. Sabel and Jonathan Zeitlin. Oxford University Press, .

Scott, John. 2000. *Social Network Analysis. A Handbook*. 2nd ed. London: SAGE Publications.

Soda, Giuseppe and Alessandro Usai. 1999. "The Dark Side of Dense Networks: From Embeddedness to Indebtedness." In *Interfirm Networks: Organization and Industrial Competitiveness*, ed. Anna Grandori. London: Routledge, pp. 276–302.

Strang, David and Sarah A. Soule. 1998. "Diffusion in Organizations and Social Movements: From Hybrid Corn to Poison Pills." *Annual Review of Sociology* 24: 265–290.

Thatcher, Mark and David Coen. 2008. "Reshaping European Regulatory Space: An Evolutionary Analysis." *West European Politics* 31(4): 806–836.

Wilks, Stephen. 2005. "Agency Escape: Decentralization or Dominance of the European Commission in the Modernization of Competition Policy?" *Governance* 18(3): 431–452.

Wilks, Stephen. 2007. "Agencies, Networks, Discourses and the Trajectory of European Competition Enforcement." *European Competition Journal* 3(2): 437–464.

World Bank. 2010. *World Development Indicators*. Washington, DC: The World Bank.